

Hico Water System, Inc.

Annual Financial Statements  
As of December 31, 2013 and for the Year Then Ended

Hico Water System, Inc.  
 Annual Financial Statements  
 As of and for the Year Ended December 31, 2013  
 With Supplemental Information Schedules

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**WADE & PERRY**  
Certified Public Accountants  
A Professional Accounting Corporation  
Members: AICPA/ Society of LCPA's

Independent Auditor's Report

Board of Commissioners  
Hico Water System, Inc.  
Dubach, Louisiana

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Hico Water System, Inc. ("System"), which comprise the statement of financial position as of and for the year ended December 31, 2013, and the related statement of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

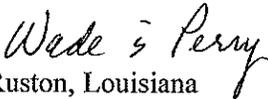
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinions***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the System, as of December 31, 2013, and the changes in its net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated May 29, 2014, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

  
Ruston, Louisiana  
May 29, 2014

Hico Water System, Inc.  
Statement of Net Position, Proprietary Fund  
December 31, 2013

ASSETS		
Cash and equivalents		\$85,283
Receivables		25,384
Prepaid items		0
Restricted assets		190,536
Capital assets (net)		<u>1,721,821</u>
TOTAL ASSETS		<u><u>\$2,023,024</u></u>
LIABILITIES		
Accounts, salaries, and other payables		\$1,967
Accrued interest payable		1,652
Payable from restricted assets		24,525
Loans payable - current		12,079
Loans payable - noncurrent		<u>800,034</u>
TOTAL LIABILITIES		<u>840,257</u>
NET POSITION		
Net invested in capital assets		909,708
Restricted for customer deposits		190,536
Unrestricted		<u>82,523</u>
TOTAL NET POSITION		<u><u>\$1,182,767</u></u>

The accompanying notes are an integral part of this statement.

Hico Water System, Inc.  
Statement of Activities  
Year Ended December 31, 2013

	<u>Program Revenues</u>			Net (Expenses) Revenues and Changes of Primary Government
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Business-type activities				
Water charges	<u>\$212,126</u>	<u>\$256,090</u>		<u>\$199,790</u>
Total business-type activities	<u>212,126</u>	<u>256,090</u>	<u>0</u>	<u>199,790</u>
Total primary government	<u>\$212,126</u>	<u>\$256,090</u>	<u>\$0</u>	<u>\$199,790</u>
General revenues:				
Investment earnings				211
Gain on sale of asset				0
Other general revenues				0
Total general revenues and transfers				<u>211</u>
Change in Net Position				243,967
Net Position - beginning				938,800
Net Position - ending				<u>\$1,182,767</u>

The accompanying notes are an integral part of this statement.

Hico Water System, Inc.  
Statement of Cash Flows, Proprietary Funds  
For the Year Ended December 31, 2013

Cash Flows from Operating Activities	
Receipts from customers and users	\$251,275
Payments to suppliers	(116,238)
Payments to employees	(41,915)
Net Cash Provided by Operating Activities	<u>93,122</u>
Cash Flows from Noncapital Financing Activities	
Loan proceeds from USDA	<u>0</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>0</u>
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets	(403,474)
Capital contributions	199,790
Principal paid on capital debt	(5,887)
Interest paid on capital debt	(32,832)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(242,403)</u>
Cash Flows from Investing Activities	
Interest and dividends received	<u>211</u>
Net Cash Provided by Investing Activities	<u>211</u>
Net Increase in Cash and equivalents	(149,070)
Cash and equivalents, Beginning of Year	<u>424,889</u>
Cash and equivalents, End of Year	<u>\$275,819</u>
Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities	
Operating income	\$66,414
Depreciation expense	31,256
(Increase) decrease in accounts receivable	(4,814)
Increase (decrease) in customer deposits	0
Increase (decrease) in accounts, salaries, and other payables	266
Net Cash Provided by Operating Activities	<u>93,122</u>
Reconciliation of total cash and cash investments:	
Current assets - cash and cash investments	\$85,283
Restricted assets - cash and cash investments	<u>190,536</u>
Total cash and cash investments	<u>\$275,819</u>

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

Hico Water System, Inc.  
Notes to the Financial Statements  
As of and For the Year Ended December 31, 2013

## INTRODUCTION

The Hico Water System, Inc. (“System”) was organized in 1973 as a not for profit water system to provide water usage and service to the customers of the System in Lincoln parish. The System has five commissioners comprising the board who are appointed by the Board of Commissioners. The System serves approximately 488 active customers and employs four people. The System operates two facilities that operate two wells at each site with approximately 100 miles of water lines.

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of Net Position and the statement of changes in Net Position) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charge to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Hico Water System, Inc.  
Notes to the Financial Statements  
As of and For the Year Ended December 31, 2013

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The System reports the following major proprietary fund:

The Water fund is to account for the provision of water services to the customers of the System. All activities necessary to provide such services are accounted for in this fund, but not limited to, administration, operations, maintenance, financing, and related debt service and billing.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the governments enterprise operations. Elimination of those charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds and internal service funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted resources as they are needed.

Hico Water System, Inc.  
Notes to the Financial Statements  
As of and For the Year Ended December 31, 2013

C. Deposits and Investments

The System's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State law and the System's investment policy allow the System to invest in collateralized certificates of deposits, government backed securities, commercial paper, the state sponsored investment pool, and mutual funds consisting solely of government backed securities. Investments for the System are reported at fair value.

D. Restricted Assets

Certain proceeds of the System's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of Net Position because their use is limited by applicable bond covenants.

E. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are capitalized at historical cost or estimated cost (the extent to which fixed asset costs have been estimated and the methods of estimation should be disclosed) if historical cost is not available (or describe other method of valuation). Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The System does not maintain a threshold level for capitalizing capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land	N/A
Water lines and wells	50 years
Improvements	15 years
Building	20 years
Equipment	5-10 years

Hico Water System, Inc.  
Notes to the Financial Statements  
As of and For the Year Ended December 31, 2013

F. Compensated Absences

The System has the following policy relating to vacation and sick leave:

Employees of the System cannot accrue vacation or sick time. Therefore, no liability has been recorded.

G. Fund Equity

In the government wide statements, equity is classified as Net Position and displayed in three components:

- a. Net invested in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position - Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Constraints may be placed on the use, either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - Net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in either of the other two categories of net position.

Proprietary fund equity is classified in the same manner as in the government-wide statements.

H. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from the estimates.

2. CASH AND CASH EQUIVALENTS

At December 31, 2013, the System has cash and cash equivalents (book balances) totaling \$275,819 as follows:

Demand deposits	\$109,808
Interest-bearing demand deposits	166,011
Investments	<u>0</u>
Total	<u>\$275,819</u>

Hico Water System, Inc.  
Notes to the Financial Statements  
As of and For the Year Ended December 31, 2013

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At December 31, 2013, the System has \$280,755 in deposits (collected bank balances). These deposits are secured from risk by \$280,755 of federal deposit insurance and \$0 of pledged securities held by the custodial bank in the name of the fiscal agent bank. (GASB Category 3).

3. RECEIVABLES

The receivables of \$25,384 at December 31, 2013, consist solely of amounts due from customers.

4. CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended December 31, 2013, for the primary government is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated				
Land	\$0			\$0
Construction in progress	<u>1,210,310</u>		( <u>\$1,210,310</u> )	<u>0</u>
Total capital assets not being depreciated	<u>1,210,310</u>	<u>0</u>	<u>(1,210,310)</u>	<u>0</u>
Capital assets being depreciated				
Buildings	0			0
Improvements other than buildings	0	\$26,302		26,302
Machinery and equipment	243,381	30,813		274,194
Infrastructure	<u>0</u>	<u>1,556,669</u>		<u>1,556,669</u>
Total capital assets being depreciated	<u>243,381</u>	<u>1,613,784</u>	<u>0</u>	<u>1,857,165</u>
Accumulated depreciation	<u>104,088</u>	<u>31,256</u>		<u>135,344</u>
Total capital assets being depreciated, net	<u>\$1,349,603</u>	<u>\$1,582,528</u>	<u>(\$1,210,310)</u>	<u>\$1,721,821</u>

Hico Water System, Inc.  
Notes to the Financial Statements  
As of and For the Year Ended December 31, 2013

5. ACCOUNTS, SALARIES, AND OTHER PAYABLES

The payables of \$1,967 at December 31, 2013, are as follows:

Withholdings	\$1,967
Accounts	0
Other	0
Total	<u><u>\$1,967</u></u>

6. LONG-TERM OBLIGATIONS

The following is a summary of the long-term obligation loans payable transactions for the year ended December 31, 2013:

Long-term obligations at beginning of year	\$818,000
Additions	0
Deductions	<u>(5,887)</u>
Long-term obligations at end of year	<u><u>\$812,113</u></u>

The following is a summary of the current (due in one year or less) and the long-term (due in more than one year) portions of long-term obligations as of December 31, 2013:

Current portion	\$12,079
Long-term portion	<u>800,034</u>
Total	<u><u>\$812,113</u></u>

The loans payable at December 31, 2013, are comprised of the following individual issues:

	<u>Outstanding 12/31/13</u>
\$818,000 USDA loans dated 6-4-12, due in monthly installments of \$2,855 through July 4, 2052, interest at 2.75%	<u>\$812,113</u>
Total	<u><u>\$812,113</u></u>

The annual requirements to amortize all loans outstanding as of December 31, 2013, including interest of \$503,903 are as follows:

Year Ending December 31,	
2014	\$34,260
2015	34,260
2016	34,260

Hico Water System, Inc.  
Notes to the Financial Statements  
As of and For the Year Ended December 31, 2013

Year Ending December 31,	
2017	34,260
2018	34,260
2019 - 2023	171,300
2024 - 2028	171,300
2029 - 2033	171,300
2034 - 2038	171,300
2039 - 2043	171,300
2044 - 2048	171,300
2049 - 2052	116,916
Total	<u>\$1,316,016</u>

7. FLOW OF FUNDS: RESTRICTIONS ON USE - UTILITIES REVENUES

There shall also be set aside into a "Reserve Fund" an amount equal to 10% of the monthly payment each month over the life of the loan until there is an amount accumulated equal to one annual installment. This reserve is required to establish an emergency fund for maintenance and repairs and debt repayment should the need arise.

Funds will also be set aside into a "Short-lived Asset Fund" at the rate of \$1,254 per month in addition to that required for the debt service reserve until such time as a minimum balance of \$116,500 is achieved for the replacement of the short lived assets identified.

8. DATE OF MANAGEMENT REVIEW

Subsequent events have been evaluated through May 29, 2014, the date which the financial statements were available to be issued.

OTHER SUPPLEMENTAL SCHEDULES

**WADE & PERRY**  
Certified Public Accountants  
A Professional Accounting Corporation  
Members: AICPA/ Society of LCPA's

Auditor's Report on  
Schedule of Federal Financial Assistance

Board of Commissioners  
Hico Water System, Inc.  
Dubach, LA 71235

We have audited the basic financial statements of Hico Water System, Inc., for the year ended December 31, 2013, and have issued our report thereon dated May 29, 2014. Our audit of such basic financial statements was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Wade & Perry*

Ruston, Louisiana  
May 29, 2014

Hico Water System, Inc.  
Schedule of Federal Financial Assistance  
For The Year Ended December 31, 2013

<u>GRANTOR/PROGRAM TITLE</u>	<u>Loan Number</u>	<u>Loan Balance</u>
United States Department of Agriculture Rural development	91.03	\$812,113

The accompanying notes are an integral part of the schedule.

REQUIRED SUPPLEMENTAL INFORMATION

# WADE & PERRY

Certified Public Accountants  
A Professional Accounting Corporation  
Members: AICPA/ Society of LCPA's

## REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

### Independent Auditor's Report

Board of Commissioners  
Hico Water System, Inc.  
Dubach, LA 71235

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Hico Water System, Inc. as of and for the year ended December 31, 2013, and the related notes to the consolidated financial statements, which collectively comprise the System's consolidated financial statements, and have issued our report thereon dated May 29, 2014.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings, recommendations, and corrective action plan that we consider to be significant deficiencies. 2013-1, 2013-2, and 2013-3.

## **Compliance and Other Matters**

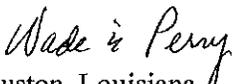
As part of obtaining reasonable assurance about whether System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2013-4.

## **Entity's Response to Findings**

The System's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Ruston, Louisiana  
May 29, 2014

Hico Water System, Inc.  
 Schedule of Current Year Findings,  
 Recommendations, and Corrective Action Plan  
 For the Year Ended December 31, 2013

We have audited the consolidated financial statements of Hico Water System, Inc. as of and for the year ended December 31, 2013, and have issued our report thereon dated May 29, 2014. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the financial statements as of December 31, 2013 resulted in a unqualified opinion.

A. Summary of Audit Results

1. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses  Yes  No Significant Deficiency  Yes  No

Compliance

Compliance Material to Financial Statements  Yes  No

2. Federal Awards

Internal Control

Material Weaknesses  Yes  No Reportable  Yes  No

Type of Opinion On Compliance Unmodified  Qualified   
 For Major Programs Disclaimer  Adverse

Are their findings required to be reported in accordance with Circular A-133, Section .510(a)?  
 Yes  No

Was a management letter issued?  
 Yes  No

3. Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program (or Cluster)</u>
NA	

Dollar threshold used to distinguish between Type A and Type B Programs: \$ 300,000

Is the auditee a "low-risk" auditee, as defined by OMB Circular A-133?  Yes  No

## B. Financial Statements Findings

### 2013-1. Lack of segregation of duties

The System does not have an adequate segregation of duties regarding its accounting and reporting system to maintain a complete system of internal control.

Recommendation: We recommend the System implement a system of checks and balances. One employee should not have access to writing checks, posting to general ledger, prepare deposits and reconcile the bank account.

Corrective Action Plan: Management concurs with this recommendation and will implement procedures immediately to improve internal controls.

### 2013-2. No list of customer deposits

The System does not reconcile the subsidiary ledger for customer deposits to the general ledger.

Recommendation: We recommend the System review past records of customer deposits and reconcile to the subsidiary ledger.

Corrective Action Plan: Management concurs with this recommendation and will implement procedures immediately to improve internal controls.

### 2013-3. Internal control over disbursements is inadequate

Nine disbursements for the loan/grant were posted to an expense account in lieu of capital asset account. Two disbursements for operating purposes were not supported by an original invoice from the vendor. Also a disbursement for the loan/grant was not supported by an invoice.

Recommendation: The System should maintain adequate supporting documentation for all disbursements and post to the appropriate account.

Corrective Action Plan: Management concurs with this recommendation and will implement procedures immediately to improve internal controls.

### 2013-4. Violation of Article VII, Section 14

Two employees did not pay their utility bill timely and had a large outstanding balance covering several months. Another randomly selected customer had an outstanding balance as of our test dates and had made a partial payment but still left an outstanding balance.

Recommendation: We recommend that the System inform all employees that they should pay their bills on time as not to violate this Article. The System should adhere to cutoff procedures if any customer goes beyond the due date.

Corrective Action Plan: Management concurs with this recommendation and will implement procedures immediately to improve internal controls.

## C. Federal Award Findings and Questioned Costs

None

Hico Water System, Inc.  
Summary of Prior Year Findings  
For the Year Ended December 31, 2013

A. INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS

2012-1. Significant deficiency in internal control over segregation of duties.

Status: Unresolved - see 2013-1

2012-2. Significant deficiency in internal control over financial reporting.

Status: Unresolved - see 2013-2

2012-3. Significant deficiency in internal control - disbursements

Status: Unresolved - see 2013-3

B. INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS

None

C. MANAGEMENT LETTER

None